

**TUSCOLA COUNTY ROAD COMMISSION**

Caro, Michigan

Report on Financial Statements  
(with required supplementary and  
additional information)

December 31, 2004

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Tuscola County Road Commission</b>	County <b>Tuscola</b>
Audit Date <b>12/31/04</b>	Opinion Date <b>05/10/05</b>	Date Accountant Report Submitted to State: <b>08/09/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

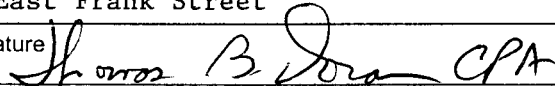
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) <b>Anderson, Tuckey, Bernhardt &amp; Doran, P.C.</b>			
Street Address <b>715 East Frank Street</b>	City <b>Caro</b>	State <b>MI</b>	ZIP <b>48723</b>
Accountant Signature 			

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# ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

Certified Public Accountants



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May 10, 2005

## INDEPENDENT AUDITOR'S REPORT

Board of Commissioners  
Tuscola County Road Commission  
Caro, Michigan 48723

We have audited the accompanying financial statements of the Tuscola County Road Commission, Caro, Michigan, a component unit of the County of Tuscola, as of and for the year ended December 31, 2004, as listed in the Table of Contents. These financial statements are the responsibility of the Tuscola County Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the financial position of the Tuscola County Road Commission, Caro, Michigan, as of December 31, 2004, and for the year then ended in conformity with generally accepted accounting principles.

As described in Note 1, the Road Commission has implemented a new financial reporting model as required by the Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments as of December 31, 2003.

The management's discussion and analysis on pages I through VII and budgetary comparison information on pages 19 & 20 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Tuscola County Road Commissions' basic financial statements. The additional information on pages 21 to 30 is presented for the purposes of additional information and has been subjected to the auditing procedures

*Anderson, Tuckey, Bernhardt & Doran, P.C.*

**ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.**  
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**TUSCOLA COUNTY ROAD COMMISSION  
MANAGEMENT'S DISCUSSION & ANALYSIS  
Year Ending December 31, 2004**

Using this Annual Report

The Tuscola County Road Commission's discussion and analysis is designed to: (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the Road Commission's financial activity; (c) identify changes in the Road Commission's financial position (its ability to address the next and subsequent year challenges); (d) identify any material deviations from the approved budget; and (e) identify any issues or concerns.

Reporting the Road Commission as a Whole

The Statement of Net Assets and the Statement of Activities report information about the Road Commission as a whole and about its activities in a way that helps answer the question whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the Road Commission's net assets and the changes in them. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating.

Reporting the Road Commission's Major Fund

Our analysis of the Road Commission's major fund begins on page 2. The fund financial statements begin on page 3 and provide detailed information about the major fund. The Road Commission currently has only one fund, the General Operations Fund, in which all of the Road Commission's activities are accounted. The General Operations Fund is a governmental fund type.

Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

### The Road Commission as a Whole

The Road Commission's net assets increased by 7.6% from \$57,548,061 to \$61,931,384 for the year ended December 31, 2004. The net assets and change in net assets are summarized below.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements, increased \$179,076. Restricted net assets, those restricted mainly for voted road and bridge millage purposes, increased \$152,382. The primary reason for the increase in unrestricted net assets was an increase of the Road Commission's share of the Motor Vehicle Highway Funds by 6.7% for the year 2004 compared to 2003.

Net assets as of year ended December 31, 2004 follows:

	Governmental Activities
Current and Other Assets	\$ 4,042,418
Capital Assets	58,435,829
Total Assets	62,478,247
Other Liabilities	546,863
Net Assets	
Restricted	481,653
Unrestricted	61,449,731
Total Net Assets	\$ 61,931,384

### The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended December 31, 2004, the fund balance of the General Operations Fund increased \$331,458 as compared to an decrease of \$3,942 in the fund balance for the year ended December 31, 2003. Total revenues were \$11,876,923, an increase of \$644,590 as compared to last year. This change in revenues resulted mainly from an increase in the Road Commission's share of Motor Vehicle Highway Funds and additional funding from Federal and State Aid.

Total expenditures were \$11,545,465, an increase of \$309,190 as compared to last year. This change in expenditures is primarily due to the additional expenses for the Federal and State Aid projects.

### Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was completed.

The ending revenue budget for 2004 was higher than the original budget by \$702,116. This was due to higher than anticipated Federal and State aid and gains on disposal of equipment, while township work was lower than originally budgeted for 2004.

Road Commission ending expenditures budget for 2004 was also higher than the original budget by \$1,382,537. This was due to the higher expenses related to the Federal and State Aid funding projects, and an MDOT audit adjustment change. Capital outlay was lower than budgeted as nine trucks scheduled for delivery in 2004 were delayed by the manufacturer until 2005.

	2004 Original Budget	2004 Final Budget
Revenues:		
Motor Vehicle Highway Funds	\$ 5,750,000	\$ 6,035,000
State Trunkline Revenue	1,000,000	1,111,000
Federal/State Funds:		
Snow Emergency Funds	-	-
Primary Roads	800,000	1,035,253
Local Roads	160,000	232,246
Primary Roads Bridges	-	-
Local Roads Bridges	130,000	613,727
County Raised Funds:		
Primary Road Millage	825,000	844,000
Local Road Bridge Millage	412,000	424,000
Township Contributions	2,300,000	1,500,000
Other Contributions	-	-
Other Revenues:		
Interest Earned	20,000	20,000
Equipment Rentals	1,925,000	2,000,000
Gain (Loss) on Disposal of Equipment	2,000	158,790
Depreciation & Depletion Credits	350,000	400,000
Equipment Retirements	1,000	-
Salvage Sales	3,000	6,100
TOTAL REVENUES	13,678,000	14,380,116
Expenditures:		
Primary Roads Construction	-	-
Primary Roads Heavy Maintenance	1,963,900	2,925,395
Primary Roads Routine Maintenance	1,010,000	1,020,000
Local Roads Construction	-	-
Local Roads Heavy Maintenance	3,435,000	2,600,000
Local Roads Routine Maintenance	2,150,000	2,180,000
Primary Structures Heavy Maintenance	165,000	140,693
Primary Structures Routine Maintenance	10,000	1,000
Local Structures Heavy Maintenance	319,000	1,047,056
Local Structures Routine Maintenance	15,000	2,000
State Trunkline Expense	1,000,000	1,111,000
Equipment Expense-Direct	1,150,000	1,200,000
Equipment Expense-Indirect	525,000	600,000
Equipment Expense-Operating	250,000	200,000
Administrative Expense	505,000	500,000
Capital Outlay	810,000	983,865
MDOT - Audit Adjustment	30,000	209,428
TOTAL EXPENDITURES	\$ 13,337,900	\$ 14,720,437



### Capital Assets

As of December 31, 2004, the Road Commission had \$91,397,992 invested in capital assets as follows:

Capital Assets Not Being Depreciated:	
Land and Land Improvements	<u>\$ 22,308,637</u>
Other Capital Assets:	
Depleteable Assets	282,718
Buildings	2,249,495
Bridges	18,437,236
Roads	43,236,919
Signals & Guardrails	262,503
Road Equipment	4,167,604
Shop Equipment	140,997
Engineers Equipment	54,090
Office Equipment and Furniture	<u>257,793</u>
Total Capital Assets at Historic Cost	<u>91,397,992</u>
Total Accumulated Depreciation	<u>32,962,163</u>
Total Net Capital Assets	<u>\$ 58,435,829</u>

Current year's major additions included the following:

Trucks/Equipment	\$ 438,405
Depletable assets	199,980
Roads	3,630,156
Bridges	1,245,324
Land improvements	1,366,107
Signals & Guardrails	262,503

### Debt

The Road Commission currently experiences a relatively debt free status. In 2004, a gravel pit was purchased for approximately \$200,000. An installment purchase agreement was executed with a current balance of \$150,000.

### Economic Factors and Next Year's Budget

The Board of County Road Commissioners considered many factors when setting the fiscal year 2005 budget. One of the factors was Capital Outlay. Capital expenditures that were originally slated for 2004 will be spent in 2005. The majority of this will be the purchase of new blade trucks. The preferred engine for these trucks was not available in 2004, so the Board held the expenses until 2005.

The Board realizes, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Tuscola County's transportation system. Therefore, the Board attempts to spend the public's money wisely and equitably, and in the best interest of the motoring public and the citizens of Tuscola County.

### Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Tuscola County Road Commission administrative offices at (989) 673-2128.

**BASIC FINANCIAL STATEMENTS**

**TUSCOLA COUNTY ROAD COMMISSION**  
**STATEMENT OF NET ASSETS**

	<b>GOVERNMENTAL ACTIVITIES</b>	
	<b>DECEMBER 31,</b>	
	<b>2004</b>	<b>2003</b>
<b><u>ASSETS</u></b>		
Cash & cash equivalents	\$ 1,146,760	\$ 717,344
Accounts receivable	537,853	923,610
Inventory	308,809	239,423
Prepaid insurance	128,253	119,689
Deferred expense	108,249	90,468
Capital assets	91,397,992	84,606,579
Less accumulated depreciation	(32,962,163)	(30,343,852)
Restricted assets:		
Cash & cash equivalents	481,653	329,271
Taxes receivable	1,330,841	1,303,060
<b>TOTAL ASSETS</b>	<b><u>\$ 62,478,247</u></b>	<b><u>\$ 57,985,592</u></b>
<b><u>LIABILITIES</u></b>		
Current Liabilities:		
Accounts payable	\$ 113,138	\$ 101,313
Accrued liabilities	79,135	76,765
Township advances	27,664	7,868
Advance - State of Michigan	155,959	229,637
Noncurrent Liabilities:		
Land contract payable	150,000	-
Sick pay payable	20,967	21,948
Total Liabilities	<u>546,863</u>	<u>437,531</u>
<b><u>NET ASSETS</u></b>		
Investment in capital fixed assets		
net of related debt	58,285,829	54,262,727
Designated for bridge/road construction	481,653	329,271
Undesignated	3,163,902	2,956,063
Total Net Assets	<u>61,931,384</u>	<u>57,548,061</u>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b><u>\$ 62,478,247</u></b>	<b><u>\$ 57,985,592</u></b>

The accompanying notes are an integral part of the financial statements.

**TUSCOLA COUNTY ROAD COMMISSION**  
**STATEMENT OF ACTIVITIES**

	<b>DECEMBER 31,</b>	
	<b>2004</b>	<b>2003</b>
Program Expenses		
Primary Road Maintenance	\$ 1,066,192	\$ 975,389
Local Road Maintenance	2,313,025	4,702,564
State Trunkline	1,174,633	1,065,429
Net Equipment Expense	2,362,405	2,562,263
Net Administrative Expense	488,743	494,943
Total Program Expenses	<u>7,404,997</u>	<u>9,800,588</u>
Program Revenue		
Federal Grants	1,032,146	627,172
State Grants	7,897,634	6,935,667
Contributions From Local Units	1,441,671	2,393,945
Investment Earnings	26,662	26,143
Total Program Revenue	<u>10,398,113</u>	<u>9,982,927</u>
Net Program Revenue	<u>2,993,116</u>	<u>182,339</u>
General Revenue		
Property Taxes	1,330,841	1,303,060
Salvage Sales	6,168	4,538
Gain on Equipment Disposal	53,199	11,210
Total General Revenue	<u>1,390,208</u>	<u>1,318,808</u>
Change in Net Assets	4,383,323	1,501,147
Net Assets Beginning of Year	<u>57,548,061</u>	<u>56,046,914</u>
Net Assets End of Year	<u><u>\$ 61,931,384</u></u>	<u><u>\$ 57,548,061</u></u>

The accompanying notes are an integral part of the financial statements.

**TUSCOLA COUNTY ROAD COMMISSION**  
**BALANCE SHEET**

**GOVERNMENTAL FUND TYPE**

**GENERAL OPERATING FUND**

	<b>DECEMBER 31,</b>	
	<b>2004</b>	<b>2003</b>
<b><u>ASSETS</u></b>		
Cash & cash equivalents	\$ 1,146,760	\$ 717,344
Accounts receivable	537,853	923,610
Inventory	308,809	239,423
Prepaid insurance	128,253	119,689
Deferred expense	108,249	90,468
Restricted assets:		
Cash & cash equivalents	481,653	329,271
Taxes receivable	1,330,841	1,303,060
<b>TOTAL ASSETS</b>	<b><u>\$ 4,042,418</u></b>	<b><u>\$ 3,722,865</u></b>
<b><u>LIABILITIES &amp; FUND EQUITY</u></b>		
Liabilities:		
Accounts payable	\$ 113,138	\$ 101,313
Accrued liabilities	79,135	76,765
Township advances	27,664	7,868
Advance - State of Michigan	155,959	229,636
Payable from restricted assets:		
Deferred revenue	1,330,841	1,303,060
Total Liabilities	<u>1,706,737</u>	<u>1,718,642</u>
Fund Equity:		
Investment in general fixed assets		
Fund balance:		
Designated for bridge/road construction	481,653	329,271
Undesignated	1,854,028	1,674,952
Total Fund Equity	<u>2,335,681</u>	<u>2,004,223</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b><u>\$ 4,042,418</u></b>	<b><u>\$ 3,722,865</u></b>

The Notes to the Financial Statements are an integral part of this statement.

**TUSCOLA COUNTY ROAD COMMISSION**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS**  
**BALANCE SHEET TO THE STATEMENT OF NET ASSETS**

	<b>DECEMBER 31,</b>	
	<b>2004</b>	<b>2003</b>
<b>Total Fund Balances - Governmental Funds</b>	\$ 2,335,681	\$ 2,004,223
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds		
The cost of the capital assets is:	91,397,992	84,606,579
Accumulated depreciation is:	(32,962,163)	(30,343,852)
Long term liabilities are not due and payable in the current period and are not reported in the funds		
Deferred revenue	1,330,841	1,303,060
Land contract payable	(150,000)	-
Sick pay payable	(20,967)	(21,949)
<b>Net Assets of Governmental Activities</b>	<u>\$ 61,931,384</u>	<u>\$ 57,548,061</u>

The accompanying notes are an integral part of the financial statements.

**TUSCOLA COUNTY ROAD COMMISSION**  
**COMBINED STATEMENT OF REVENUE, EXPENDITURES,**  
**AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL**  
**GENERAL OPERATING FUND**

	<b>GENERAL OPERATING FUND</b>	
	<b>YEAR ENDED DECEMBER 31,</b>	
	<b>2004</b>	<b>2003</b>
<b>REVENUE:</b>		
State Funds:		
Motor vehicle highway funds	\$ 6,072,587	\$ 5,686,581
State trunkline revenue	957,230	1,065,429
State aid	867,817	183,657
Federal funds:		
Secondary	1,032,146	627,172
County raised funds:		
Township contributions	1,441,671	2,393,945
Other contributions	-	-
Property taxes	1,269,443	1,233,658
Other revenue:		
Installment Proceeds	150,000	-
Interest earned	26,662	26,143
Salvage sales	6,168	4,538
Gain (loss) Equipment Disposal	53,199	11,210
<b>TOTAL REVENUE</b>	<b>11,876,923</b>	<b>11,232,333</b>
<b>EXPENDITURES:</b>		
Primary heavy maintenance	2,837,881	2,591,450
Primary routine maintenance	1,065,379	968,760
Local heavy maintenance	2,423,178	3,336,635
Local routine maintenance	2,294,384	2,018,231
Primary structures heavy maintenance	65,174	64,340
Primary structures routine maintenance	812	6,628
Local structures heavy maintenance	1,164,095	973,687
Local structures routine maintenance	2,388	16,975
State trunkline maintenance and non-maintenance	1,174,633	1,065,429
Equipment expense - net	(323,371)	(48,470)
Administrative expense	489,725	495,731
Capital outlay - net	351,188	(253,121)
<b>TOTAL EXPENDITURES</b>	<b>11,545,465</b>	<b>11,236,275</b>
<b>EXCESS OF REVENUE OVER (UNDER) EXPENDITURES</b>	<b>331,458</b>	<b>(3,942)</b>
<b>FUND BALANCE - JANUARY 1</b>	<b>2,004,223</b>	<b>2,008,165</b>
<b>FUND BALANCE - DECEMBER 31</b>	<b>\$ 2,335,681</b>	<b>\$ 2,004,223</b>



**TUSCOLA COUNTY ROAD COMMISSION**  
**RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF**  
**REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**TO THE STATEMENT OF ACTIVITIES**

	<b>DECEMBER 31,</b>	
	<b>2004</b>	<b>2003</b>
<b>Total net change in fund balances--governmental funds</b>	\$ 331,458	\$ (3,942)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of these assets are allocated over their useful lives as depreciation. This is the amount by which capital outlays exceeded depreciation in the current period. Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the statement of activities:		
Equipment retirements	(12,076)	(21)
Depreciation	(2,963,570)	(2,981,609)
Infrastructure	6,474,072	4,298,755
Capital outlay	641,059	117,775
Loan proceeds provide current financial resources to governmental funds, but entering into loan agreements increases long-term liabilities in the statement of Net Assets. Repayment on notes payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of Net Assets.		
	(150,000)	-
Net increase in revenue between the 2004 tax levy (\$1,330,841) and the 2003 tax levy collected during 2003 (\$1,269,443)		
	61,398	69,402
Sick pay is reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:		
Sick pay payable at the beginning of the year	21,949	22,736
Sick pay payable at the end of the year	(20,967)	(21,949)
<b>Change in net assets of governmental activities</b>	<b>\$ 4,383,323</b>	<b>\$ 1,501,147</b>

The accompanying notes are an integral part of the financial statements.

**TUSCOLA COUNTY ROAD COMMISSION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting policies of the Tuscola County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Tuscola County Road Commission.

Effective January 1, 2003, the Road Commission implemented the provisions of GASB Statement No. 34 (GASB 34), *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain significant changes in the statements include the following:

A management Discussion and Analysis (MD&A) section providing an analysis of the Road Commission's overall financial position and results of operations has been included in the financial statements.

Financial statements prepared using full accrual accounting for all of the Road Commission's activities, including infrastructure (roads, bridges, etc.).

A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements).

**REPORTING ENTITY:**

The Tuscola County Road Commission, established pursuant to the County Road Law (MCL 224.1), is governed by a 3 member Board of County Road Commissioners. The Road Commission may not issue debt without the County's approval and property tax levies are subject to County Board of Commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity" for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Tuscola County Road Commission, a discretely presented component unit of Tuscola County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes.

The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund.

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:**

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Tuscola County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment.

**TUSCOLA COUNTY ROAD COMMISSION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 1 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):**

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS, (Continued):**

Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for the Operating Fund (governmental fund). The Operating Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Major individual governmental funds are reported as separate columns in the fund financial statements.

**MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION:**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

**CASH, CASH EQUIVALENTS AND INVESTMENTS:**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are recorded at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national exchanges are valued at the last reported sales price. Investments that do not have an established market are reported at estimated fair value.

**TUSCOLA COUNTY ROAD COMMISSION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):**

**PROPERTY TAXES:**

The Road Commission portion of the County property tax is levied each December 1, on the taxable value of property located in the County as of the preceding December 31. Assessed values are established annually by the County and are equalized by the State at 50% of approximated current market value. Real and personal property in Tuscola County for the 2003 levy had a State equalized valuation of \$1,573,791,990 and a taxable value of \$1,154,259,430.

In the government-wide financial statements, the property taxes receivable is recorded as revenue when the tax is levied in the current year.

Although the county's 2004 ad valorem tax is levied and collectible on December 1, 2004, it is the Road Commission's policy to recognize revenues from the current tax levy in the subsequent year. When the proceeds of this levy are budgeted and made available for the financing of the Road Commission's operations in the governmental fund financial statements, the tax receivable is offset to deferred revenue. The Road Commission's property tax rates for the 2003 levy were .4766 mills for voted bridges and .9578 mills for voted Primary Road.

**INVENTORIES:**

Inventories consisting of equipment parts and materials of \$125,256 and road materials of \$183,552 are valued at the lower of cost or market, determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations used.

**PREPAID EXPENSES:**

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

**CAPITAL ASSETS:**

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Tuscola County Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at estimated fair market value at the date of donation.

GASB 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB 34. The Tuscola County Road Commission has capitalized the current year's infrastructure, as required by GASB 34, and has reported the infrastructure in the Statement of Net Assets. The Road Commission will retroactively capitalize the major infrastructure assets acquired on or before December 31, 2003, as permitted by GASB 34.

**TUSCOLA COUNTY ROAD COMMISSION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 1 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):**

**DEPRECIATION:**

Depreciation expense amounted to \$277,795 for the year ended December 31, 2004. Depreciation is computed using the State Transportation Department Guidelines (Sum-of-the-years-digits) for road equipment and the straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Department	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure – Roads	8 to 30 years
Infrastructure – Bridges	12 to 50 years

**COMPENSATED ABSENCES (SICK & VACATION BENEFITS):**

Under the terms of the 2002 contract between the Tuscola County Division of the Michigan County Road Commission Employee Association, a sickness and accident insurance program funded through a third-party insurance carrier has been established. The program will provide a weekly benefit equal to 70% of the employee's regular weekly earnings for a maximum period of fifty-two weeks. Employees, who, as of August 1, 1990, have accumulated unused sick leave hours earned pursuant to the employer's sick leave plan that existed prior to this agreement, shall have said hours placed into a frozen sick leave bank.

If an employee retires pursuant to the retirement program or dies, the employee or his estate is entitled to payment of fifty percent of his accumulated unused sick leave bank at the rate of pay the employee was earning on December 31, 1989. If an employee is discharged, terminated or quits, he shall not be entitled to payment of any portion of his accumulated sick leave hours.

Hourly employees may accumulate up to 160 hours of paid vacation after which credits are discontinued until the paid vacation accumulation is reduced.

Salaried employees may carry over from year to year a maximum of five unused vacation days.

Accumulated unpaid sick and vacation pay at December 31, 2004, is recorded in the financial statements of the Road Commission as follows:

- A current year expenditure of the Operating Fund if paid out of expendable available financial resources;
- The current and long-term liability is reported on the government-wide financial statements.

**ESTIMATES:**

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**TUSCOLA COUNTY ROAD COMMISSION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 1 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):**

**TOTAL (MEMORANDUM ONLY):**

The "Memorandum Only" total column represents the aggregate total of the columnar statements by fund type and account groups. This total column is not comparable to a consolidation and, therefore, does not present consolidated information.

**NOTE 2 –STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:**

**BUDGETARY PROCEDURES:**

Budgetary procedures are established pursuant to Act 621, PA 1978, as amended, (MCL 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. The Road Commission follows these procedures in establishing the budgetary data reflected in the financial statements:

1. On or prior to September 30 of each year, a proposed budget is submitted to the County Board of Road Commissioners for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to January 1 the budget is legally enacted through passage of a resolution.
4. Any revisions of the budget must be approved by the County Board of Road Commissioners.
5. Formal budgetary integration is employed as a management control device during the year for the Operating Fund.
6. The budget is adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the County Board of Road Commissioners during the year. Individual amendments were not material in relation to the original appropriations which were amended.

**TUSCOLA COUNTY ROAD COMMISSION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 3 – CASH DEPOSITS AND INVESTMENTS:**

Deposits are carried at cost. Deposits of the Road Commission are at banks in the name of the Tuscola County Treasurer. Michigan Compiled Laws, section 129.91, authorizes the County to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard-rating agencies within the three highest classifications, which matures not more than 270 days after the date of purchase, and which involve no more than 50 percent of any one fund.

Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan. The Road Commission's deposits and investments are in accordance with statutory authority.

The risk disclosures for the Road Commission's deposits and investments, as required by GASB Statement No. 3, are as follows:

	<u>CARRYING AMOUNT</u>		<u>FINANCIAL INSTITUTION BALANCES</u>
<u>DEPOSITS</u>	<u>UNRESTRICTED</u>	<u>RESTRICTED</u>	
Insured	\$ 100,000	\$300,000	\$ 400,000
Uninsured	<u>1,046,760</u>	<u>181,653</u>	<u>1,228,413</u>
Total Deposits	<u>\$1,146,760</u>	<u>\$481,653</u>	<u>\$1,628,413</u>

The Road Commission's insured deposits are insured by virtue of the Road Fund meeting certain specified criteria under FDIC regulations and obligations of the United States.

**NOTE 4 - ACCOUNTS RECEIVABLE:**

Accounts receivable consist of the following:

	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Motor vehicle highway funds	\$177,042	\$561,311
State highway – other	-	66,334
Due on county road agreements	354,574	285,349
Sundry accounts	6,237	6,784
Miscellaneous road agreements	<u>-</u>	<u>3,832</u>
TOTAL	<u>\$537,853</u>	<u>\$923,610</u>

The receivables consist primarily of charges to other agencies for services and materials provided by the Road Commission.

**NOTE 5 - DEFERRED EXPENSE - FEDERAL AID - SECONDARY (F.A.S.):**

The deferred expense, F.A.S., represents progress payments made by the Road Commission to the State Highway Department on various road projects not completed at December 31, 2004. These amounts will be either refunded or charged to expense as the projects are completed.

**TUSCOLA COUNTY ROAD COMMISSION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 6 - CHANGES IN CAPITAL ASSETS:**

A summary of changes in the recorded capital assets follows:

**COST:**

<b><u>CAPITAL ASSETS ACCOUNTS</u></b>	<b><u>BALANCE JANUARY 1, 2004</u></b>	<b><u>ADDITIONS</u></b>	<b><u>DEDUCTIONS</u></b>	<b><u>BALANCE DECEMBER 31, 2004</u></b>
Land & right of ways	\$ 294,218	\$ -	-	\$ 294,218
Land improvements	20,648,312	1,366,107	-	22,014,419
Buildings	2,167,373	3,824	-	2,171,197
Bridges	17,191,912	1,245,324	-	18,437,236
Roads	39,606,763	3,630,156	-	43,236,919
Signals & guardrails	-	262,503	-	262,503
Equipment - roads	4,085,735	438,405	\$356,536	4,167,604
Equipment - shop	140,997	-	-	140,997
Equipment - heating	78,298	-	-	78,298
Equipment - radio	112,542	-	-	112,542
Equipment - office	139,152	-	-	139,152
Equipment - engineer	52,440	1,650	-	54,090
Depletable assets	82,738	199,980	-	282,718
Weighmaster equipment	6,099	-	-	6,099
<b>TOTAL</b>	<b><u>\$84,606,579</u></b>	<b><u>\$7,147,949</u></b>	<b><u>\$356,536</u></b>	<b><u>\$91,397,992</u></b>

**ACCUMULATED DEPRECIATION:**

<b><u>CAPITAL ASSETS ACCOUNTS</u></b>	<b><u>BALANCE JANUARY 1, 2004</u></b>	<b><u>ADDITIONS</u></b>	<b><u>DEDUCTIONS</u></b>	<b><u>BALANCE DECEMBER 31, 2004</u></b>
Buildings	\$ 1,051,856	\$ 56,357	-	\$ 1,108,213
Bridges	7,622,882	424,489	-	8,047,371
Roads	17,591,860	2,250,751	-	19,842,611
Signals & guardrails	-	8,750	-	8,750
Equipment - roads	3,586,549	201,688	\$345,260	3,442,977
Equipment - shop	125,748	3,629	-	129,377
Equipment - heating	78,209	88	-	78,297
Equipment - radio	103,463	2,962	-	106,425
Equipment - office	96,659	11,368	-	108,027
Equipment - engineers	40,335	3,104	-	43,439
Depletable assets	40,192	385	-	40,577
Weighmaster equipment	6,099	-	-	6,099
<b>TOTAL</b>	<b><u>\$30,343,852</u></b>	<b><u>\$2,963,571</u></b>	<b><u>\$345,260</u></b>	<b><u>\$32,962,163</u></b>
<b>PLANT &amp; EQUIPMENT EQUITY</b>	<b><u>\$54,262,727</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$58,435,829</u></b>



**TUSCOLA COUNTY ROAD COMMISSION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 7 - ADVANCES - STATE OF MICHIGAN:**

The balance of this account consists of the following:

	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Non-interest bearing notes for the purchase of equipment to maintain State trunk lines. The loan does not have to be repaid as long as a maintenance contract exists.	\$ 92,124	\$165,802
Non-interest bearing working capital advances for State trunkline maintenance. There are no repayment provisions.	<u>63,835</u>	<u>63,835</u>
TOTAL	<u>\$155,959</u>	<u>\$229,637</u>

**NOTE 8 - LONG-TERM DEBT:**

Long-term debt of the Road Commission consisted of and had the following provisions:

\$150,000 installment purchase agreement for 36.2 acres of land in Watertown Township dated January 16, 2004. Annual installments of \$50,000, plus interest at 5.5% begin January 16, 2005.

**Annual Requirements to Amortize Long-Term Debt**

	<u>December 31, 2004</u>	
<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 50,000	\$ 8,250
2006	50,000	5,500
2007	<u>50,000</u>	<u>2,750</u>
	<u>\$150,000</u>	<u>\$16,500</u>

**NOTE 9 - CHANGES IN GENERAL LONG-TERM DEBT:**

The general long-term debt of the Road Commission may be summarized as follows:

	<u>BALANCE</u> <u>12-31-03</u>	<u>INCREASE</u> <u>(DECREASE)</u>	<u>BALANCE</u> <u>12-31-04</u>
Installment purchase agreement	\$ -	\$150,000	\$150,000
Compensated absences	<u>21,949</u>	<u>(982)</u>	<u>20,967</u>
Total	<u>\$21,949</u>	<u>\$149,018</u>	<u>\$170,967</u>

**TUSCOLA COUNTY ROAD COMMISSION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 10 - DEFERRED COMPENSATION PLAN:**

The Road Commission offers all its employees a deferred compensation plan created in accordance with Internal Revenue Code Sec. 457. The plan, available to salaried employees, permits them to defer a portion of their current salary until the employee's termination, retirement, death, or unforeseeable emergency.

Plan assets shall be held in a trust, annuity contract or custodial accounts for the exclusive benefit of participants and their beneficiaries. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Tuscola County Road Commission's financial statements.

**NOTE 11 - DEPLETION EXPENSES:**

Depletion expense amounted to \$385 and \$40 for the years ended December 31, 2004 and 2003. Depletion was computed at a rate of four cents per cubic yard of gravel removed from various county gravel pits.

**NOTE 12 - FUND BALANCE - DESIGNATED:**

Fund balance is designated in the amount of \$481,653 and \$329,271 for the years ended December 31, 2004 and 2003. This represents the amount of bridge/road levy assets on hand at year-end. These assets must be used for the purpose of improvements to primary county roads and local road bridges.

**NOTE 13 - OPERATING LEASES:**

Commitments under various operating lease agreements for road equipment provide for minimum annual rental payments as follows:

2004	\$250,730
2005	200,610
2006	145,960
2007	<u>86,175</u>
TOTAL	<u>\$683,475</u>

There were no contingent rentals or sublease rentals associated with leases in effect at December 31, 2004.

**NOTE 14 - PENSION PLANS:**

The Road Commission maintains single-employer and cost-sharing multiple-employer defined benefit pension plans. One plan is administered by the Massachusetts Mutual Life Insurance Company (Massachusetts Mutual Plan) while the other plan is administered by the Municipal Employees' Retirement System of Michigan (MERS). The plans provide retirement, disability and death benefits to plan members and beneficiaries. Cost-of-living adjustments and other plan changes are provided to members and beneficiaries at the discretion of the Board of County Road Commissioners. The Massachusetts Mutual Plan issues a publicly available financial report that includes financial statements and required supplementary information and that report may be obtained by writing to the Tuscola County Road Commission, 1733 Mertz Road, Caro, MI 48723. The MERS plan issues a report which may be obtained by writing to Municipal Employees' Retirement System of Michigan, 447 Canal Rd., Lansing, MI 48917 or by calling 1-800-767-6377.

**TUSCOLA COUNTY ROAD COMMISSION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 14 - PENSION PLANS, (Continued):**

Membership of the plans consisted of the following:

	<b>MASSACHUSETTS MUTUAL PLAN</b>	<b>MERS PLAN</b>
Actuarial valuation date	April 1, 2004	December 31, 2003
Retirees and beneficiaries receiving benefits	NONE	7
Terminated plan members entitled to but not yet receiving benefits	3	1
Active plan members	<u>49</u>	<u>20</u>
Total	<u>52</u>	<u>28</u>
Number of participating employers	1	1

The contribution requirements of plan members (both plans) and the Road Commission are established and may be amended by the Board of County Road Commissioners. Plan members of the Massachusetts Mutual Plan contribute \$.44 per hour, per month, excluding overtime. The MERS Plan is non-contributory for plan members. The Road Commission is required to contribute to an actuarially determined rate for both plans. The current rate for the MERS plan is 12.83% of covered payroll.

The Road Commission's annual pension cost and net pension obligation to the pension plans for the current year were:

	<b>MASSACHUSETTS MUTUAL PLAN</b>	<b>MERS PLAN</b>
Annual required contribution	\$14,961	\$106,668
Interest on net pension obligation	NONE	NONE
Adjustment to annual required contribution	<u>NONE</u>	<u>NONE</u>
Annual pension cost	14,961	106,668
Contributions made	<u>14,961</u>	<u>106,668</u>
Increase (decrease) in net pension obligation	NONE	NONE
Net pension obligation - beginning of year	<u>NONE</u>	<u>NONE</u>
Net pension obligation - end of year	<u>\$NONE</u>	<u>\$ NONE</u>

**TUSCOLA COUNTY ROAD COMMISSION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 14 - PENSION PLANS, (Continued):**

	<b>MASSACHUSETTS MUTUAL PLAN</b>	<b>MERS PLAN</b>
The annual required contribution was determined as part of actuarial valuations, using the entry age actuarial cost method, dated	April 1, 2004	December 31, 2003
The actuarial assumptions included:		
Investment rate of return (net of administrative expenses)	6.0%	8%
Projected salary increases of	N/A	N/A
Inflation component of	4.9%	4.5%
Actuarial cost method	Frozen Initial Liability	Individual Aggregate
Actuarial value of assets	Current Actuarial value	Current Actuarial value

For both plans, the assumptions did not include post-retirement benefit increases, which are funded by Road Commission appropriation when granted. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a longer period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis.

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

<b><u>YEAR ENDED</u></b>	<b><u>ANNUAL PENSION COST (APC)</u></b>	<b><u>PERCENTAGE OF APC CONTRIBUTED</u></b>	<b><u>NET PENSION OBLIGATION</u></b>
A) Mass. Mutual Plan			
April 1, 2001	27,388	100%	NONE
April 1, 2002	13,202	100%	NONE
April 1, 2003	14,618	100%	NONE
April 1, 2004	14,961	100%	NONE
B) MERS Plan			
December 31, 2000	84,253	100%	NONE
December 31, 2001	97,204	100%	NONE
December 31, 2002	93,048	100%	NONE
December 31, 2003	106,668	100%	NONE

**TUSCOLA COUNTY ROAD COMMISSION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 15 – RISK MANAGEMENT:**

The Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The Road Commission has joined together with other Road Commissions to form the Michigan County Road Commission Self-Insurance Pool, a public entity risk pool currently operating as a common risk management and insurance program for liability insurance. The government pays an annual premium to the pool for its general insurance coverage. The agreement for formation of the Michigan County Road Commission Self-Insurance Pool provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for large claims.

The government continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The Michigan County Road Commission Self-Insurance Pool publishes its own financial report annually, which can be obtained from Michigan County Road Commission Self-Insurance Pool, P. O. Box 14203, Lansing, MI 48901.

**NOTE 16 - CONTINGENT LIABILITIES:**

A number of suits are currently pending against the Road Commission for alleged negligence. Although some suits are substantial in amount, it is the opinion of Road Commission management that insurance coverage is adequate to cover all such matters.

The Road Commission is in the process of an underground storage tank removal and clean-up project at several sites. The total cost of the clean up is not yet known and the amount of insurance coverage, if any is uncertain.

**NOTE 17 – CHANGE IN ACCOUNTING PRINCIPLE:**

Effective January 1, 2003, the Road Commission implemented several new accounting standards issued by GASB:

Statement No. 33, Accounting and Financial Reporting for Non-Exchange Transactions, as amended by Statement No. 36, Recipient Reporting for Certain Shared Non-Exchange Revenue, which established standards for recording non-exchange transactions on the modified accrual and accrual basis of accounting.

Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, as amended by Statement No. 37, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments Omnibus, which established new financial reporting standards for state and local governments. This statement requires a significant change in the financial reporting model used by local governments, eliminating account groups and utilizing the full accrual basis of accounting and the economic resources measurement focus. Another significant change is the Management Discussion and Analysis Section, which provides an overall analysis of the financial position and results of operations and conditions that could have a significant effect on the financial position or results of operation.

Statement No. 38, Certain Financial Statement Note Disclosures, which requires note disclosures when implementing GASB Statement 34.

**TUSCOLA COUNTY ROAD COMMISSION**  
**STATEMENT OF REVENUES AND OTHER FINANCING**  
**SOURCES - BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

	GENERAL FUND			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	
REVENUES				
Federal funds:				
Secondary	\$ 800,000	\$ 1,035,253	\$ 1,032,146	\$ (3,107)
State Funds:				
State trunkline revenue	1,000,000	1,111,000	957,230	(153,770)
Motor vehicle highway funds	5,750,000	6,035,000	6,072,587	37,587
State aid	290,000	845,973	867,817	21,844
County raised funds:				
Township contributions	2,300,000	1,500,000	1,441,671	(58,329)
Property taxes	1,237,000	1,268,000	1,269,443	1,443
Installment Proceeds	-	-	150,000	150,000
Interest earned	20,000	20,000	26,662	6,662
Salvage sales	3,000	6,100	6,168	68
Gain (loss) Equipment Disposal	2,000	158,790	53,199	(105,591)
TOTAL REVENUES	<u>\$ 11,402,000</u>	<u>\$ 11,980,116</u>	<u>\$ 11,876,923</u>	<u>\$ (103,193)</u>

The accompanying notes are an integral part of the financial statements.

**TUSCOLA COUNTY ROAD COMMISSION**  
**STATEMENT OF EXPENDITURES AND OTHER FINANCING**  
**USES - BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

	GENERAL FUND			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	
EXPENDITURES:				
Primary heavy maintenance	\$ 1,963,900	\$ 2,925,395	\$ 2,837,881	\$ 87,514
Primary routine maintenance	1,010,000	1,020,000	1,065,379	(45,379)
Local heavy maintenance	3,435,000	2,600,000	2,423,178	176,822
Local routine maintenance	2,150,000	2,180,000	2,294,384	(114,384)
Primary structures heavy maintenance	165,000	140,693	65,174	75,519
Primary structures routine maintenance	10,000	1,000	812	188
Local structures heavy maintenance	319,000	1,047,056	1,164,095	(117,039)
Local structures routine maintenance	15,000	2,000	2,388	(388)
State trunkline maintenance and non-maintenance	1,030,000	1,320,428	1,174,633	145,795
Equipment expense - net	-	-	(323,371)	323,371
Administrative expense	505,000	500,000	489,725	10,275
Capital outlay - net	459,000	583,865	351,188	232,677
TOTAL EXPENDITURES	<u>\$ 11,061,900</u>	<u>\$ 12,320,437</u>	<u>\$ 11,545,465</u>	<u>\$ 774,972</u>

The accompanying notes are an integral part of the financial statements.

**TUSCOLA COUNTY ROAD COMMISSION**  
**ANALYSIS OF CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

	<b>PRIMARY ROAD FUND</b>	<b>LOCAL ROAD FUND</b>	<b>COUNTY ROAD COMMISSION</b>	<b>TOTALS</b>
Total Revenues	\$ 5,242,505	\$ 5,461,220	\$ 1,173,199	\$ 11,876,923
Total Expenditures	<u>4,452,295</u>	<u>5,991,652</u>	<u>1,101,519</u>	<u>11,545,465</u>
Excess of Revenues Over (Under) Expenditures	<u>790,210</u>	<u>(530,432)</u>	<u>71,680</u>	<u>331,457</u>
Other Financing Sources (Uses):				
Optional Transfers In		530,432		530,432
Optional Transfers Out	<u>(530,432)</u>			<u>(530,432)</u>
Total Other Financing Sources (Uses)	<u>(530,432)</u>	<u>530,432</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures & Other Uses	<u>259,778</u>	<u>-</u>	<u>71,680</u>	<u>331,458</u>
Fund Balance - January 1, 2004	1,921,543	-	82,680	2,004,223
Interfund Adjustment		-	-	
Fund Balance - December 31, 2004	<u>\$ 2,181,321</u>	<u>\$ -</u>	<u>\$ 154,360</u>	<u>\$ 2,335,681</u>

See the accompanying notes.



**TUSCOLA COUNTY ROAD COMMISSION**  
**ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>PRIMARY ROAD FUND</u>	<u>LOCAL ROAD FUND</u>	<u>COUNTY ROAD COMMISSION</u>	<u>TOTALS</u>
Property taxes	\$ 847,354	\$ 422,089		\$ 1,269,443
State Aid:				
Michigan Trans. Fund:				
Engineering	5,516	4,484		10,000
Urban Road	8,589	5,912		14,501
Allocation	3,335,494	2,712,592		6,048,086
Federal Aid:				
Surface Tran. Program	462,296			462,296
D Funds - Federal	410,695	208,222		618,917
Bridge		656,497		656,497
Other Guardrail	162,253			162,253
Charges for services:				
State trunkline maintenance			\$ 957,230	957,230
Contributions:				
Township		1,441,671		1,441,671
Other Revenue:				
Installment loan proceeds			150,000	150,000
Salvage sales			6,168	6,168
Gain (loss) Equip. Disp.			53,199	53,199
Interest earned	10,308	9,752	6,602	26,662
Total Revenue	<u>\$ 5,242,505</u>	<u>\$ 5,461,220</u>	<u>\$ 1,173,199</u>	<u>\$ 11,876,923</u>

See the accompanying notes.

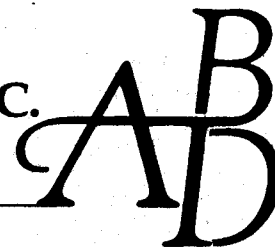
**TUSCOLA COUNTY ROAD COMMISSION**  
**ANALYSIS OF EXPENDITURES**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>PRIMARY ROAD FUND</u>	<u>LOCAL ROAD FUND</u>	<u>COUNTY ROAD COMMISSION</u>	<u>TOTALS</u>
Primary road:				
Heavy maintenance	\$ 2,837,881			\$ 2,837,881
Maintenance	1,065,379			1,065,379
Local road:				
Heavy maintenance		\$ 2,423,178		2,423,178
Maintenance		2,294,384		2,294,384
Primary road structures:				
Heavy maintenance	65,174			65,174
Maintenance	812			812
Local road structures:				
Heavy maintenance		1,164,095		1,164,095
Maintenance		2,388		2,388
State trunkline maintenance			\$ 1,174,633	1,174,633
Equipment expense - net	(65,418)	(184,839)	(73,114)	(323,371)
Administrative expense - net	197,278	292,447		489,725
Capital outlay - net	<u>351,188</u>			<u>351,188</u>
TOTAL EXPENDITURES	<u><u>\$ 4,452,295</u></u>	<u><u>\$ 5,991,652</u></u>	<u><u>\$ 1,101,519</u></u>	<u><u>\$ 11,545,465</u></u>

See the accompanying notes.

# ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

Certified Public Accountants



Gary R. Anderson, CPA  
Jerry J. Bernhardt, CPA  
Thomas B. Doran, CPA

Robert L. Tuckey, CPA  
Valerie Jamieson Hartel, CPA  
Jamie L. Peasley, CPA

May 10, 2005

## **INDEPENDENT AUDITORS' REPORT ON SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE**

Board of Commissioners  
Tuscola County Road Commission  
Caro, Michigan 48723

We have audited the component unit financial statements of Tuscola County Road Commission, Caro, Michigan, for the year ended December 31, 2004, and have issued our report thereon dated May 10, 2005. These component unit financial statements are the responsibility of the Tuscola County Road Commission, Caro, Michigan, management. Our responsibility is to express an opinion on these component unit financial statements based on our audit. We conducted our audit in accordance with generally accepted United States auditing standards and "Government Auditing Standards", issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the component unit financial statements taken as a whole. The accompanying schedule of federal financial assistance is presented for purposes of additional analysis and is not a required part of the component unit financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the component unit financial statements and, in our opinion, is fairly stated in all material respects in relation to the component unit financial statements taken as a whole.

*Anderson, Tuckey, Bernhardt & Doran, P.C.*

**ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS**

**TUSCOLA COUNTY ROAD COMMISSION**  
**SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

<b>FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE</b>	<b>FEDERAL CFDA NUMBER</b>	<b>FEDERAL ITEM CODE</b>	<b>PROGRAM AWARD AMOUNT</b>	<b>REVENUE RECOGNIZED</b>	<b>PROGRAM EXPENDITURES</b>
U.S DEPARTMENT OF TRANSPORTATION					
Pass Through Michigan Department of Transportation:					
Highway Research, Planning and Construction	20.205				
Federal Aid Secondary:					
Elmwood Road Bridge		53445A	701,272	86,434	86,434
Bevens Road		77878A	513,369	112,941	112,941
Cemetery Road		77877A	577,870	462,296	462,296
Hurds Corner Road		76291A	260,277	208,222	208,222
Guardrail/embankment upgrade		73989A	202,816	162,253	162,253
TOTAL DEPARTMENT OF TRANSPORTATION				<u>\$ 1,032,146</u>	<u>\$ 1,032,146</u>

**TUSCOLA COUNTY ROAD COMMISSION**  
**NOTES TO SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

1. Contracted projects are administered by the Michigan Department of Transportation (MDOT) and will be included in its Single Audit. All of the Road Commission's Federal financial assistance for fiscal year 2004, except Emergency Relief Funds paid through the Federal Highway Administration, was received from contracted projects and, accordingly, the Road Commission had no Federal aid to administer, except as noted above. Consequently, a "Single Audit Report on Compliance with Requirement Applicable to Federal Financial Assistance Program Transactions" is not present.

2. Federal aid revenues recognized are based on Federal, State and Local participation in project contract payments as follows:

<u>PROGRAM TITLE</u>	<u>PERCENTAGES</u>		
	<u>FEDERAL SHARE</u>	<u>STATE SHARE</u>	<u>LOCAL SHARE</u>
Secondary Road (A)	80.00		20.00
Critical Bridge (B)	80.00	15.00	5.00
Critical Bridge (C)	77.28		22.72
Critical Bridge (D)	80.00	10.00	10.00
Critical Bridge (E)	80.00		20.00
Critical Bridge (F)	75.00		25.00
Critical Bridge (G)	64.80	12.20	23.00
Railroad Signing (H)	90.00	10.00	
Secondary Road (I)	65.00	15.00	20.00

3. Program expenditures represent the total actual 2004 Federal Financial Assistance Program expenditures eligible for Federal participation.

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May 10, 2005

**INDEPENDENT AUDITORS' COMPLIANCE REPORT BASED  
ON AN AUDIT OF COMPONENT UNIT FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH "GOVERNMENT AUDITING STANDARDS"**

Board of Commission  
Tuscola County Road Commission  
Caro, Michigan 48723

We have audited the component unit financial statements of Tuscola County Road Commission, Caro, Michigan, as of and for the year ended December 31, 2004 and have issued our report thereon dated May 10, 2005.

We conducted our audit in accordance with United States generally accepted auditing standards and "Government Auditing Standards", issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement.

Compliance with laws, regulations, contracts and grants applicable to the Tuscola County Road Commission, Caro, Michigan, is the responsibility of the Tuscola County Road Commission, Caro, Michigan, Management. As part of obtaining reasonable assurance about whether the component unit financial statements are free of material misstatement, we performed tests of the Tuscola County Road Commission's compliance with certain provisions of laws, regulations, contracts and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests indicate that, with respect to the items tested, Tuscola County Road Commission, Caro, Michigan, complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the Tuscola County Road Commission had not complied, in all material respects, with those provisions.

This report is intended for the information of the Board of Commissioners, management, and cognizant agency and other agencies as identified in the schedule of federal financial assistance. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*Anderson, Tuckey, Bernhardt & Doran, P.C.*

**ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.**  
**CERTIFIED PUBLIC ACCOUNTANTS**

# ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

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May 10, 2005

## INDEPENDENT AUDITORS' REPORT ON THE INTERNAL CONTROL STRUCTURE IN ACCORDANCE WITH "GOVERNMENT AUDITING STANDARDS"

Board of Commissioners  
Tuscola County Road Commission  
Caro, Michigan 48723

We have audited the component unit financial statements of Tuscola County Road Commission, Caro, Michigan, for the year ended December 31, 2004, and have issued our report thereon dated May 10, 2005.

We conducted our audit in accordance with United States generally accepted auditing standards and "Government Auditing Standards", issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement.

In planning and performing our audit of the component unit financial statements of Tuscola County Road Commission, Caro, Michigan, for the year ended December 31, 2004, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the component unit financial statements and not to provide assurance on the internal control structure.

The management of the Tuscola County Road Commission, Caro, Michigan, is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of component unit financial statements in accordance with generally accepted accounting control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- General Ledger

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Board of Commissioners  
May 10, 2005

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the component united financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of the Tuscola County Road Commission in a separate comments and recommendations letter.

This report is intended for the information of the Board of Commissioners, management and the cognizant agency and any other agencies as listed in the schedule of federal financial assistance. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*Anderson, Tuckey, Bernhardt & Doran, P.C.*

**ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS**



# TUSCOLA COUNTY ROAD COMMISSION

## Pension Plan

### Required Supplementary Information

#### SCHEDULE OF FUNDING PROGRESS

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY (AAL) - ENTRY AGE	UNFUNDED AAL (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
Massachusetts Mutual Plan						
April 1, 2002	\$ 243,862	\$ 399,286	\$ (196,456)	61.1%	\$ 2,038,660	9.6%
April 1, 2003	178,893	381,499	(211,499)	46.9%	2,287,018	9.3%
April 1, 2004	141,138	433,863	(234,066)	32.5%	2,310,579	10.1%
MERS Plan						
December 31, 2001	\$ 1,404,772	\$ 2,107,410	\$ (702,638)	66.7%	\$ 777,814	90.3%
December 31, 2002	1,617,363	2,329,438	(712,075)	69.4%	725,248	98.1%
December 31, 2003	1,901,863	2,758,692	(856,829)	68.9%	767,401	111.6%